"HOW TO" Procedure Manual for Cash Flow Management

Alberta
MUNICIPAL AFFAIRS
Municipal Services Branch

"HOW TO" PROCEDURE MANUAL FOR CASH FLOW MANAGEMENT

Alberta Municipal Affairs
Municipal Services Branch
(403)427-2523
Zenith 2-2282

Honourable Julian Koziak
Minister

Archie R. Grover
Deputy Minister

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INTRODUCTION

During the past few years many municipalities have experienced the problem of limited or declining revenues coupled with increasing expenditure levels. The general public's demand for lower tax levels has created significant pressure on administrators and elected officials to find alternative sources of revenue or to reduce expenditure commitments. A cash management system meets this demand by allowing the administrator to reduce the cost of short-term borrowing and to increase investment revenue.

This step-by-step handbook is designed to assist in developing a cash management system. The steps to be covered are:

1) Defining Financial Goals and Objectives
2) Examining the Current System
3) Reviewing Constraints
4) Developing and Implementing Cash Management Policies
5) Developing of a Cash Flow Budget
6) Developing Cash Management Techniques

STEP 1 - DEFINING FINANCIAL GOALS AND OBJECTIVES

Efficient cash management requires the control of cash from the moment it is received to the time when a payment for goods and services clears the bank. Many municipalities in Alberta have cash balances in excess of those required for current expenditures. This "idle" cash can be invested to generate additional revenue. Formal cash management policies should be established by council and administration to achieve the following goals:

1) Maximize the amount of cash available for the purposes of meeting daily cash needs and increasing total funds available for investment.

2) Earn the maximum return on cash investment.

To achieve these goals, annual objectives should be established. These objectives should be concrete and measurable. For example, council together with administration may wish to establish goals such as:

1. Average yield on investments to be a minimum of 10%.
2. Average weekly cash on hand not to exceed $20,000.
3. All funds to be deposited on day of receipt.
4. All vendor discounts to be taken.

Goals and objectives give the municipality something to strive for and provide a means of measuring success.

STEP 2 - EXAMINING THE CURRENT SYSTEM

Before one can plan an improved cash management system, it is necessary to understand the current operations. The administrator should take the time to note how funds are currently being handled from the time they are received to the time they are disbursed.

In addition, the current financial condition of the municipality should be examined. The Department of Municipal Affairs has begun providing Alberta municipalities with 5 year summaries of selected financial data and willingly provide further financial analysis upon request. In addition, the municipality can utilize a series of five handbooks recently published by the International City Management Association which give a step-by-step guide to evaluating a municipality's financial health. Such an analysis is not only necessary for developing a cash management system but also for preparing the annual budget estimates and the five year capital budget. You must understand the municipality's present situation before you can plan its financial future.

STEP 3 - REVIEW CONSTRAINTS

The next step is to review the constraints placed on the administrator. The constraints may be both municipal and provincial.

From a municipal point of view, some councils may not wish to give the administrator a free hand in investing funds, or they may wish to maintain large cash on hand balances. Further, there may exist municipal by-laws regarding cash management. All of these constraints must be noted and adhered to. Should the administrator feel that local policies are too constraining he or she should recommend appropriate changes to council.

Cash management in a municipality is also constrained by provincial legislation. As a municipality is holding funds in trust, the province feels it necessary to protect the public's interest by protecting municipal investments from those of considerable risk. Section 377(1) of the Municipal Government Act (R.S.A. 1980) indicates that council may invest excess sinking fund monies and defines the types of acceptable investments and the powers of council over investment. The Act, in Sections 396 and 398, goes on to indicate that municipal reserve funds and operating funds can be invested in a similar manner. Basically this legislation restricts municipal investments to those same securities authorized for investment by insurance companies under the Canadian and British Insurance Act (Canada) Chapter I-15, Section 63. Under the provisions of this legislation any insurance company incorporated under the laws of Canada or the former Province of Canada may invest its funds as briefly summarized below. These then are the types of securities a municipality may invest in.

(a) In the bonds, debentures, stocks or other evidences of indebtedness guaranteed by the government of Canada or any province;

(b) bonds or debentures, etc. of a municipal corporation or guaranteed by a municipal corporation;

(c) bonds or debentures of a corporation secured by an assignment to a trust corporation in Canada of an annual payment that the government of Canada has agreed to make where such annual payment is sufficient to meet the interest falling due on the bonds or debentures and the principal amount falling due in the year in which the annual payment is made;

(d) bonds, debentures, etc., that are fully secured by statutory charge upon real estate, plant or equipment of the corporation used in its business if interest has been paid for at least ten years immediately preceding the date of the investment;

(e) guaranteed investment certificates issued by a trust company, incorporated in Canada if the preferred or common shares are authorized as investments;

(f) preferred shares if the corporation had paid a dividend in each of the five years immediately preceding the date of investment at least equal to the specified rate on all of its preferred shares;

(g) fully paid common shares of a company where during a period of five years that ended less than one year before the date of the investment the corporation paid in at least four of the five years, including the last year a dividend on its common shares.

There are other securities such as bonds or debentures of charitable, educational or philanthropic corporations and bonds or debentures of corporations that are fully secured by mortgages etc., which are also approved investments for municipalities but because of the qualifications, are too lengthy to include in a summary.

Under section 398, the municipality would be authorized to invest surplus funds in corporations that qualify within the guidelines summarized above. In

addition the municipality would be authorized to invest surplus monies in notes or deposit receipts of chartered banks, term deposit certificates of treasury branches or a credit union incorporated under The Credit Union Act or investment certificates as defined in The Trust Companies Act and issued or entered into by a trust company registered under that Act.

STEP 4 - DEVELOPING AND IMPLEMENTING CASH MANAGEMENT POLICIES

Many municipalities in Alberta have not formally developed cash management policies though these may be implicit in the operations of the municipality. The development of these policies is an important step in the establishment of a cash management system. These policies encompass the goals and objectives described earlier, together with the requirements and expectations of council and administration regarding cash flow budgeting, banking, investing and borrowing. These policies provide the administration long-term goals and objectives and provide a set of criteria against which actual performance can be compared. A sample investment policy is included in Exhibit A.

Once council has approved these policies it is up to the administration to implement them. It is important that all employees be made aware of the policies and have input in the development of procedures to implement them. Once the implementation plan is in place each employee should be made aware of his/her duties and how they relate to the policies.

Once implemented, there should be a monitoring of the procedures by both the employees and administration to see if the procedures are in fact achieving the desired results. Revisions and fine-tuning will no doubt be necessary.

STEP 5 - DEVELOPING A CASH FLOW BUDGET

After defining the municipality's goals and objectives, examining the current system, reviewing all constraints and developing the cash management policies, the administrator is in a position to develop a cash flow budget. Cash flow budgeting involves estimating cash receipts and cash disbursements based both on past experience and on the knowledge of future commitments as reflected in the annual budget estimates. The Cash Flow Budget can be prepared on a monthly, weekly or even a daily basis. This analysis can be undertaken as soon as the budget estimates for the coming year are available and the financial data from the last year has been recorded and analyzed.

The availability of a document or worksheet for cash management will enhance your performance, prevent cash shortfall problems, reduce interest expense costs and improve investment earnings throughout the year. When the municipal cash situation is your responsibility these results must be your working objective.

The following cash flow worksheet is presented as a simplified example of a cash flow budget presented on a monthly basis.

THE CASH FLOW WORKSHEET

The Cash Flow Worksheet (Exhibit B) is divided into columns for each month plus provision for a "Total". This worksheet under "Revenues" lists eight categories of a specific nature plus the all-encompassing "Other", while "Expenditures" provide separate categories for six specific types of expenditure plus "Other".

You may wish to add variations to the form to meet special requirements of your municipality or may find it advantageous to break down some revenue or expenditure items into some more manageable categories.

The backup worksheet titled Historical Analysis (Exhibit C) will assist in breaking down the approved budget estimates on the basis of previous years' experience and will, when completed, provide the monthly figures needed for insertion on the cash flow worksheet, on a monthly basis.

THE HISTORICAL ANALYSIS

It is necessary when beginning work on these forms to put last year's figures in the same revenue or expenditure categories as those which are to be used on the Cash Flow Worksheet. For example, all salaries and associated expenses should be grouped in one category, for both last year and the estimate for the current year.

This process is necessary for each line item category (Tax Revenue, Licenses and Permits, etc.) which you have chosen to include on your worksheet.

The experience from last year (monthly amounts) should be recorded in the appropriate column of the Historical Analysis with the calculation of the monthly percentage in relation to the total for the year being placed in the next column.

The approved budget estimate figures for the current year are then broken down to monthly amounts using these basic percentages and are entered on the cash flow worksheet. One should always ensure that the total of the monthly amounts is equal to the approved budget estimate.

You may find that you have some special information which will affect the monthly figures and/or the timing of revenues or expenditures for the coming year. For example, annual salary increases may have been paid last year in October while the labour contract which was signed at that time calls for current year increases to take effect in June. This special knowledge must be applied in preparation of the Cash Flow Budget. This type of information is equally applicable when considering revenues.

When preparing this analysis you must ensure that your plan does not deviate from the approved budget estimates which have been passed by your Council, and must assume that the results for the year will not differ in any substantive way from them.

With the Cash Flow Worksheet complete the administrator is in a position to start planning the investment strategy for the coming year. It may be helpful to graph the information shown on the Cash Flow Worksheet as shown in Exhibit D.

Line items included on the Cash Flow Worksheet are briefly described below and may differ in some ways from your situation.

CASH FLOW REVENUES

Tax Revenue: The tax revenue item will be greatest in most municipalities in June. There may, however, be some bulge in the amount received in other months. January, for example, if a discount has been authorized, or possibly September if a penalty becomes applicable on October 1st. When you prepare the monthly breakdown, you must consider and weigh these factors.

Licenses and Permits: Licenses in most municipalities fall due in January, while permit revenue is received throughout the year. The fund flow from these items will likely not change drastically from former years.

By-law Fines: Generally, this revenue source is relatively constant but in any municipality it may fluctuate from season to season and, of course, will differ from one municipality to another. In most instances, there is an increase in fines revenue in warmer months, as a result of more activity by residents.

Investment Revenues: An investment revenue item will arise as a result of investment of surplus cash available for short periods of time and may also

result from investments of funds for future programs. For example, many municipalities have invested the unconditional grant portion of their 1979 debt reduction monies. You should determine when such investments will mature and at what rate they have been invested. You must also determine when the funds, both the original investment and the earnings, will flow to the municipality. This information will be readily available through a review of your investment records. After making the above determination and also when the funds may be required to meet an obligation, you should record the information on the cash flow form.

Rental Revenue: Rental revenues may be obtained from a variety of properties owned by the municipality. The revenues will vary and are best determined by a review of previous years' experience. You should also take into account any rate adjustments implemented or anticipated in the budget. When reviewing this revenue item, you must become aware of any contemplated changes in rental properties, through disposal, destruction or acquisition. Changes in rental property status of course will be noted by you from regular council minutes and general administration activities. Naturally, any of the above changes should be reflected in the worksheets and, ultimately, in the monthly cash position.

Enterprise Revenue: As is the case with other revenues which are primarily controlled within the municipality, the enterprise revenue estimate and breakdown, (on a monthly basis), is best determined by a review of what has taken place in the past. Of course, you must give full consideration to any adjustments which have been implemented or are anticipated. These adjustments will likely result from rate or user charge changes in the past year.

User Fee Revenue: In most Alberta communities, user fees flow primarily from recreation facilities owned and operated by the municipality (or in concert with another municipality). There will not likely be a radical swing in either the amount or timing of these revenues from the historic trend indicated in past years' financial records.

An increase in rate will likely increase revenue minimally. If it is a substantial increase it may result in reduced use of the facility and reduced revenue. This possibility should not be considered likely as most increases are reasonable and will not have this effect. The simple application of calculated worksheet percentages to the approved estimate figure should provide the appropriate cash flow result.

Grants: In terms of total dollars, the major portion of grant revenues flow at predetermined times. Municipal Assistance, for example, is distributed as a lump sum payment in May. The amounts are usually known in advance or are determinable with reasonable certainty, by contacting the agency responsible for the grant. Some grants, however, depend on an event; for example, 80% completion of a project before 50% of grant funds are released and so on. You, in your cash flow analysis must be aware of the grant release dates and appropriately record the likely date of cash receipt.

Other: This category is for items not previously categorized and could include such things as the sale of fixed assets or the sale of subdivision land.

CASH FLOW EXPENDITURES

Salaries: The line item salaries must include associated costs such as, employer's share of Canada Pension Plan (C.P.P.), other types of employer's pension contributions, health care payments, etc. But the line item "salaries" should not include costs which may be budgeted but for which no cash is required (such as, salary continuation during illness). Salaries are likely one of the least difficult expenditures with which you must deal because they will flow out on a very uniform monthly basis, comparable to the previous year. The only problems likely to arise are (1) increases and decreases in temporary staff, and (2) annual increases and their timing. These items must, of course, be considered by adjusting the monthly expenditure according to known fluctuations, but this need not cause undue difficulty.

Purchases: Municipal purchases may be somewhat more difficult to record for cash management purposes than other expenditure items, but this is not an insurmountable task. There will be regular purchases made on an ongoing basis: purchases for inventory (e.g., salt, gravel, etc.) and special purchases (eg. vehicles, buildings, equipment, etc). To provide the necessary cash flow information, it is necessary that you determine what type of purchases will be made and when they will be made.

Requisitions: Requisition payments fall due on designated dates with amounts predetermined and certain. The recording for analytical purposes is thus quite simple. There remains, even with this regimented requisition process, the possibility of extraordinary requisitions, for example, a hospital district may requisition for a portion of their unapproved costs. This situation may arise without warning and thus create a difficult situation. However, you should, early in each year, contact these requisitioning organizations, School Authority, Hospital District Seniors Foundation, etc., to determine if and when they are likely to make their requisition.

Grants Expenditures: The grants payable by a municipality are, in some cases, payable on a specific date, but they may be payable at the option of the municipality and on a date chosen by it. The timing of payment of grants should be discussed with your Council, and if possible, you should obtain authority to make payment at times when funds will be available without requiring short-term loans.

Debt Service Costs: For the most part, this expenditure item is fixed as to amount and date of payment. Amounts and payment dates are determinable by reviewing the repayment schedules for outstanding debentures of the municipality. If the municipality has short-term bank loans, you must determine when such loans will be paid out, how much the interest charges are likely to be, and when you will be required, if at all, to transfer this loan to another form.

The combination of debenture and short-term payments will become the cash flow analysis line item "debt service".

Contracts: Contract obligations must be met by the municipality according to the terms of the contract. The municipality can, through participation in contract discussions, arrange payments so they occur at more advantageous times. For example, on small contracts it may be possible, through negotiation to eliminate interim payments or to make the first payment at 60% completion of the project rather than at some lesser percentage.

Other: This category includes expenditures not previously categorized. It could include such items as refunds on deposits, contributions to other municipal agencies etc.

SUMMARY

When this simplified cash flow statement is completed, your review of the bottom line will provide a sound indication of the months in which your municipality will experience a cash deficiency or have a cash surplus. The statement will also indicate the approximate amounts of short-term borrowing or investments and their duration. Deficiencies naturally will require borrowings while investments will be possible during periods of surplus.

STEP 6 - DEVELOPING CASH MANAGEMENT TECHNIQUES

Now that the cash flow has been forecast the administrator is in a position to use various procedures to achieve the previously stated goals and objectives. These procedures deal with the areas of

- cash receipting
- cash disbursement
- banking
- investment

CASH RECEIPTING

As stated previously, one of the primary goals of cash management is to increase the availability of cash. One of the main methods of accomplishing this is to speed up cash inflow. When examining municipal receipts the administrator will have noticed that there are two main types of receipts - property tax, and government grants. Any moves to improve the flow of these revenues can have a significant effect.

Property Tax: There are several procedures which can be used to improve cash flow when dealing with property tax. These include

1. Using installment billing or preauthorized chequing. Either a process would develop a smooth flow of revenue into the municipality.

2. Mailing bills as soon as possible - many people pay their bills upon receipt.

3. Aggressively pursuing delinquencies with follow up letters and phone calls. These will encourage many individuals to pay in order to stop being pestered.

4. Arranging for the payment of taxes at local financial institutions. Approximately 35% of people pay their regular bills this way.

5. Including return envelopes with the tax notices and utility bills. This will encourage some payment. A further inducement could be to use postage paid return envelopes. This, however, could result in costs in excess of the benefit derived.

All of the above are designed to encourage a more timely flow of tax revenue into the municipality.

Government Grants: The administrator should prepare a schedule of all anticipated revenue from federal and provincial sources. The schedule should include the grant name, the government unit providing the grant, the method of calculation, the documentation required, the earliest possible application date, the earliest possible receipt date, and the contact person. The publication "Alberta Municipal Assistance Programs" published annually by Alberta Municipal Affairs indicates the provincial grant and cost-sharing programs available to municipal governments. Administrators should regularly review the schedule to ensure that applications are being submitted at the earliest possible time. These dates should be put on the municipal calendar. It is imperative that the forms be completed in their entirety and that all necessary back-up documentation be included. This will ensure the fastest possible collection. Also, if available, have government grants directly deposited to the municipality's bank account and instruct the bank to notify the municipality when such funds are received; this allows the municipality to begin earning interest at the earliest possible date.

General: The council of a municipality may also wish to impose negative inducements to increase the cash available. The use of penalties to the maximum level allowed under legislation for property tax arrears will coerce payment to some extent, as will the imposition of interest charges for late payment of other receivables.

Other tips for receipting include ensuring that deposits are made daily so that funds are earning interest and not sitting idle in a vault or cash register. (Section 59(2)b of the Municipal Government Act states that unless otherwise directed by council, the treasurer shall deposit daily all money received). Also, the municipality should consider minimizing the number of bank accounts it operates; this will reduce the possibility of forgetting one when planning investments.

CASH DISBURSEMENT

Cash disbursement procedures have a major impact on cash availability. Several procedures a municipality can initiate to increase cash availability include:

1) Delay the payment of invoices until the due date. This allows the municipality to earn interest on funds during the period between when the invoice is received and when it is due.

2) Take the maximum advantage of discounts offered by suppliers for prompt or early payment; a 2% discount for payment within 10 days is equivalent to an annual rate of 36%.

3) Develop a regular schedule for payments, eg. every Friday, every 15th and 30th of the month etc. This schedule should be flexible enough to allow for the taking of discounts as described above.

4) When planning capital projects, keep in mind the municipality's cash flow and, if possible, plan to make capital expenditures when funds are available. This will reduce the need for short-term borrowing and the associated borrowing costs.

BANKING

The municipality's relationship with its bankers is a vital one. The municipality should work with the bank manager to inform him of what the cash needs are expected to be.

The municipality should shop carefully for its banking services and may wish to extend a Request for Proposals (see Exhibit E) outlining current and future banking requirements. There are many banking services available which can improve the municipality's cash system. The following are just a few of them:

- Automated payroll service
- Automatic loan to offset overdrafts
- Automatic loan paydown
- Borrowing at preferred rates
- Coin rolling service
- Consolidated bank accounts
- Corporate investment type accounts
- Custodial services for securities
- Night depository service
- Lock boxes
- Pre-authorized billing
- Reconciliation service
- Tax, utility, and parking bill receipt service

The following is a brief description of these services.

Automated Payroll Service: The bank can offer a complete payroll system including the calculation of all statutory deductions. It will make pre-authorized deposits to employees' bank accounts and supply a statement of earnings for each employee.

Automatic Loans and Automatic Loan Payment: Municipalities can make arrangements to have any overdraft automatically offset by a loan. If

an overdraft arises the bank issues a note which has been presigned by the municipality. The municipality must ensure that by-laws are in place to allow for this action.

The municipality can also arrange to have its loans automatically paid down from excess funds in its accounts. The municipality would stipulate a minimum balance under which excess funds would not be applied to provide a cushion.

Note that municipalities usually obtain preferred rates from banking institutions when borrowing. They should, nonetheless, investigate the rates being offered by several financial institutions before negotiating a loan.

Coin Rolling Services: If a municipality finds itself inundated with coins collected from buses, parking meters, and recreation facilities it may find it beneficial to utilize the banks coin rolling service. Although there is a charge for this service, the savings in municipal manpower should more than offset this cost.

Consolidated Bank Accounts: In many municipalities there are as many accounts for banking purposes as there are for accounting purposes. This practice can be a costly one for a municipality as they may be paying interest charges on accounts that are overdrawn when they have sufficient funds in other accounts to cover these. Banks now offer consolidated bank accounts to solve this problem. Under this system the bank still maintains each account separately, however, at the end of each day it calculates the net balance of all accounts and pays interest at a prearranged rate if the balance is positive.

Corporate Investment Account: This type of account pays interest at different rates depending on the account balance. On a minimum monthly balance of $100,000 or more it pays the rate on 30-59 day term deposits. For smaller amounts the rate is lower. This type of account is often useful in small to medium municipalities.

Custodial Services: Banks provide safekeeping services to all their customers. Taxpayers may feel safer if municipal securities are held in a bank than held in an office safe where it is more susceptible to theft.

Night Depository: Most banks offer a depository outside the bank where deposits can be left in safekeeping after banking hours. The depository can also be used during the day when the bank is extremely busy.

Lock Box: The use of a lock box system allows for municipal revenues to be deposited at the earliest possible time. Under this system the municipality requires that payment of utility and property tax bills be sent in care of a post office box number. The bank picks up the payments, prepares the deposit slip, and deposits the funds on a daily basis. The municipality is informed of the deposits on a daily basis. Under this system funds are available for investment faster than under the normal payment system.

Pre-Authorized Billing: Pre-authorized billing has been used extensively by private industry for such things as mortgage and insurance billings. In a municipality it can be used for utility services, parking, or, as in the case of one Alberta municipality, property taxation. Under this system the consumer fills out a form authorizing the bank to deduct, on a monthly basis, a specified amount from its bank account. The specified amount would be based on a historical analysis of the account and adjustments would be made annually. This system increases the efficiency of receiving payments and decreases the work involved in billing. When applied to property taxation it has the additional advantage of smoothing the cash flow over the year and providing a source of revenue during the spring when many municipalities face cash shortages. This can be an expensive service so a municipality must look carefully at all aspects before contracting for such a service.

Reconciliation Service: Banks will reconcile issued items to those clearing the bank and report on outstanding items. Prices for this

service vary depending on the complexity of the job. Most banks require a minimum activity level of 1000 items per month for this service.

Tax, Utility, and Parking Bill Receipt Service: Arrangements can be made to have these bills paid at the bank . Consumers are sent specially coded bills. When the bank receives payment the proceeds are deposited directly to the municipality's account. The back-up documentation on the deposits is forwarded to the municipality on a regular basis so that customer accounts can be updated.

INVESTMENTS

The Cash Flow Budget indicates to the administrator the amount of cash available for investment and the length of time this cash will be available. This cash position will be further enhanced by utilizing some of the procedures described previously. The amount of cash available for investment is determined by taking the monthly cash surplus and reducing it by any reserve or "cushion" required by council, as well as any minimum deposit required by the bank.

When considering the type of investment, the administrator must consider four factors:

- term
- liquidity
- risk
- yield

Each investment tool must be rated on these factors.

Term

The administrator must decide how long he wishes to hold an investment. Terms of investments vary in length from a day up to 20 or more years. In a municipal context investments will tend to be of a short term nature. The

administrator must examine his cash flow budget to discover the length of time funds will be available for investment purposes. Historically, the longer the term, the greater the return. This, however, is not a hard and fast rule given current economic conditions.

Liquidity

The next important factor to examine is the liquidity of an investment - that is how readily is the investment convertible into cash. Some investments such as fixed term notes cannot be cashed in until maturity. Once again, the administrator must examine the cash flow and after considering the current situation, make a decision as to the degree of liquidity required. Generally, the greater the liquidity the lower the return.

Risk

Every investment contains a degree of risk. Generally the greater the risk the greater the return. Municipalities must be especially careful when assessing the risk of a particular investment. As custodians of public funds the municipality must take great care to ensure that monies are not lost due to poor risk analysis.

Provincial legislation has been enacted to protect the rights of municipal inhabitants by defining the types of instruments a municipality may invest in.

Although provincial legislation allows municipalities invest in certain common and preferred shares, such investments are not usually recommended because of the degree of risk involved.

Yield

The yield or return on an investment is based on a combination of term, liquidity and risk. The goal is to maximize the yield while maintaining the preferred levels of the other three factors.

The Alberta municipality is likely to invest in some form of note or bond. These can be either interest bearing or discount. With a discount note, the note is purchased at a discount to be redeemed at par value at maturity. For example, a $100,000 Province of Alberta Treasury bill to mature in 30 days could be quoted as follows: Price - 99.25, Yield - 15%. This means the investor pays $99,250 and at maturity receives $100,000 at maturity for a yield of 9.15%.

With an interest bearing note, the note is purchased at par value and at maturity is redeemed at that value plus accrued interest. For example, an investor purchases at 9.5%, a 30 day Government of Canada Bond for the $100,000 par value. Upon maturity he receives the $100,000 par value plus $780.82 interest.

Bankers and Brokers

When preparing to make an investment the administrator is well advised to contact his banker and/or investment broker for guidance. An understanding of current economic conditions and future trends is essential, as is knowledge of the past performance of various types of investments. Bankers and investment dealers will help you gain this knowledge and will provide information on specific investments upon request. The time involved in researching and planning investments will be repaid by higher yields.

Many administrators have neither the time nor the expertise to make their own investment decisions. This is where an investment dealer can be beneficial. An administrator should develop contacts with several investment companies and develop a system to allow the firms to bid competitively on investment funds.

Investment Tools

Despite legislation there are still many investment options available to the municipality. The following are brief descriptions of those most commonly used.

Government Instruments

Government of Canada Treasury Bills: The Bank of Canada, as agent for the Government of Canada calls for tenders at noon each Thursday for a specified amount of treasury bills. The terms at issue are regularly 91 days and 182 days, and occasionally terms of 270 days and 364 days. "T-Bills" are available in bearer form only and are sold at a discount of $1,000, $5,000, $25,000, $100,000 and $1,000,000. They are extremely liquid and considered a prime investment vehicle.

Provincial Treasury Bills and Notes: Several provinces issue treasury bills and notes. These too are high quality low risk extremely liquid investments. These can be either interest bearing or discount and tend to yield approximately 5 basis points more than a Government of Canada Treasury Bill.

Provincial and Canada Bonds: These securities form an active part of the short-term money market as the long term debt approaches maturity. Like the other government investments they are considered high quality and their yield is in line with other government issues. Municipalities acquiring these securities normally retain them until maturity.

Federal and Provincial Crown Corporation Notes: These investments are guaranteed by or are a direct obligation of the Crown. They too are of high quality and liquidity. Issued in either discount or interest bearing form these notes yield approximately the same as direct Provincial or Federal obligations.

Bank Instruments

There is a vast array of investment instruments issued by banks and other financial institutions. The types and terms vary by financial institution. The smaller the bank, the greater the risk and the greater the return. Those issued

by trust companies are also considered of greater risk and therefore tend to offer a better yield. The following is a brief summary of some of these instruments.

Term Receipts: These instruments operate under various labels (Certificates of Deposit, Term Deposits, Fixed Term Deposits, Guaranteed Investment Certificates, etc.). These tend to be fully registered non-transferable, interest bearing notes. Terms range from 1 day to 6 years. Though some may have call features which allow them to be liquidated on demand for an interest penalty, in the main these tend to be non-liquid investments. Rates and terms can vary significantly so a municipality is well advised to shop around before investing.

Banker's Acceptance: This instrument is essentially a commercial draft drawn by a borrower for payment on a specified date and accepted, or guaranteed, by his bank. The bank's acceptance is signified by counter-signature on the draft. Once a draft of this type has been co-signed, it becomes a "Banker's Acceptance" backed by the credit of the accepting bank. These are extremely liquid, and tend to yield higher than government obligations by 10 to 15 basis points.

Bearer Discount Notes: These are a direct obligation of the specific issuing bank. They are issued on a discount basis in denominations of $100,000. Terms range from one week to one year. They are of a liquid nature and yield approximately the same as a banker's acceptance note when issued by larger banks. Those issued by smaller banks can be less liquid but tend to yield from 10 to 40 basis points more.

Swap Deposits: From time to time chartered banks can offer the short term investor holding Canadian dollars very attractive rates on "swapped deposits". Otherwise known as a bank swap, this non-liquid instrument is essentially a United States dollar deposit with a foreign exchange swap attached indicating that the Canadian investor enjoys protection from any exchange rate fluctuations.

In theory, the investor with Canadian dollars must first convert them into U.S. dollars in order to create the deposit. In order to avoid exposure to exchange rate changes during the life of the investments, arrangements would then be made simultaneously to convert the U.S. dollar proceeds back to Canadian dollars at a predetermined maturity date. This double conversion process is known as a swap and takes place on the day the deposit is entered into. In actual practise the bank quotes an all-in yield in Canadian dollar terms which includes both the U.S. deposit rate and the yield effect of the swap. The prospective investor thereby avoids the step-by-step process previously described.

Due to the nature of the yield composition, at times swap rates are extremely competitive and other times fall short of the rates available strictly in Canadian dollars. Swap deposits, regardless of where the U.S. deposit is placed, do carry the credit rating of the issuing bank.

United States Dollar Fixed Deposits: Through the Master Banks International Department in Toronto, facilities are available for the placement of surplus United States dollars for fixed terms. Rates are determined by the International personnel based on current market conditions prevailing at the time. General features include: minimum amount of $5,000 terms vary from one day to one year (terms under 30 days minimum $100,000); deposits are redeemable, however, this is not encouraged due to the nature of the investment.

Commercial Paper: Commercial paper is the name given to the unsecured promissory notes issued by a wide range of Canadian corporations. The market for commercial paper used to be restricted to larger, well-known companies, but this is changing and an increasing number of smaller credit-worthy corporations are now issuing commercial paper. The notes are backed by the general credit of the issuing corporation and are usually unsecured. In addition, unused bank lines of credit and/or a parental guarantee support most borrowers. In most cases, they are authorized investments for life insurance, trust companies,

and pension funds. Notes are usually issued in multiples of $1,000 subject to a minimum of $50,000 although a number of companies have minimums of $100,000. Maturities range from overnight to one year. The notes may be interest bearing or discount, fully registered or in bearer form.

TIPS

1. Invest money early in the week, preferably Monday to Wednesday.

2. Investment maturity dates not to fall on Wednesdays or Fridays, or Thursdays before long week-ends. i.e., Wednesday Treasury Deposits will yield a lower rate as the new Bank of Canada rate is set Thursday, and Friday will reflect lower rates for week-end money costs.

3. Maturity of investments on the 14th or 31st of the month will not enable the banks to maintain their required Reserve Balance with the Bank of Canada and, therefore, yield a lower return.

4. Do not deal with any financial institution with a Dominion Bond rating of less than R-1.

5. In times of falling rates, watch that the current account does not exceed the quoted investment rates.

6. Early filing of subsidy and financial returns will help maintain early cash flows at a time when required by municipalities.

7. Tax due dates should be advanced to enable investment of money for 30 to 60 days prior to payment of requisitions to school boards, hospitals, or of any other significant expenditures that are determined in advance. Consideration should be given to an installment tax payment plan or preauthorized chequing.

8. Obtain rates from 3 or 4 institutions leaving the preferred institutions to the end. This will, in some cases, allow a lever with which you are able to obtain the highest rate from the institution that is most commonly used.

9. If in a borrowing situation, arrangements should be made that signing of promissory notes are in denominations that will help to reduce the outstanding loans on a daily basis, i.e., 10 notes of

$10,000 would be signed at one time, with the instructions to the manager to apply all surplus funds at the end of the day to the nearest $1,000 against any outstanding loan, and if funds are needed to cover daily expenditures that it be done in the $10,000 denominations.

10. All cash transactions should be delivered to the bank on a daily basis regardless of size. This will help to reduce any deficiencies that may result, especially in times of high interest rates.

11. Have a general idea of what the Canadian dollar is doing in relation to U.S. currency. A downward pressure will be followed by higher interest rates.

12. Have an overall knowledge of what the United States is going to do over the next quarter. If a cut in the discount rate is expected, the interest rates of Canada will be sure to follow the same direction.

EXHIBIT A

INVESTMENT POLICIES

City/County of ______________

Sample Policies

- The city will make a cash-flow analysis of all funds on a regular basis. Disbursement, collection, and deposit of all funds will be scheduled to insure maximum cash availability.

- When permitted by law, the city will pool cash from several different funds for investment purposes.

- The city will invest at least ____ percent of its idle cash on a continuous basis.

- The city will analyze market conditions and investment securities (daily/monthly) to determine what yield can be obtained.

- The city will obtain the best possible return on all cash investments.

- The accounting system will provide regular information concerning cash position and investment performance.

- The city will make arrangements with banks on a contractual basis for a specified period of time and with specified fees for each service rendered.

From "Financial Performance Goals" W. Maureen Godsey
International City Management Association,
Washington D.C. 1980

Exhibit B

CASH FLOW WORKSHEET
FOR THE __________ OF __________
FOR THE YEAR 19__

	JAN.	FEB.	MAR.	APR.	MAY	JUNE	JUL.	AUG.	SEPT.	OCT.	NOV.	DEC.	TOTAL
REVENUES													
TAX REVENUE													$0
LICENSES AND PERMITS													$0
BY-LAW FINES													$0
INVESTMENT REVENUE													$0
RENTAL REVENUE													$0
ENTERPRISE REVENUE													$0
USER FEE REVENUES													$0
GRANTS													$0
OTHER													$0
TOTAL REVENUES	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
EXPENDITURES													
SALARIES													$0
PURCHASES													$0
REQUISITIONS													$0
GRANTS													$0
DEBT SERVICE													$0
CONTRACT OBLIGATIONS													$0
OTHER													$0
TOTAL EXPENDITURES	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
CASH SURPLUS (DEFICIENCY)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
BALANCE FORWARD		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
CUMULATIVE CASH SURPLUS (DEFICIENCY)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

Exhibit C

HISTORICAL ANALYSIS
FOR THE __________ OF __________
FOR THE YEAR 19__

	JAN. AMOUNT	%	FEB. AMOUNT	%	MAR. AMOUNT	%	APR. AMOUNT	%	MAY AMOUNT	%	JUNE AMOUNT	%	JUL. AMOUNT	%	AUG. AMOUNT	%	SEPT. AMOUNT	%	OCT. AMOUNT	%	NOV. AMOUNT	%	DEC. AMOUNT	%	TOTAL AMOUNT
REVENUES																									$0
TAX REVENUE																									$0
LICENSES AND PERMITS																									$0
BY-LAW FINES																									$0
INVESTMENT REVENUE																									$0
RENTAL REVENUE																									$0
ENTERPRISE REVENUE																									$0
USER FEE REVENUES																									$0
GRANTS																									$0
OTHER																									$0
TOTAL REVENUES	$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0
EXPENDITURES																									
SALARIES																									$0
PURCHASES																									$0
REQUISITIONS																									$0
GRANTS																									$0
DEBT SERVICE																									$0
CONTRACT OBLIGATIONS																									$0
OTHER																									$0
TOTAL EXPENDITURES	$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0
CASH SURPLUS (DEFICIENCY)	$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0
BALANCE FORWARD																									
CUMULATIVE CASH SURPLUS (DEFICIENCY)	$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0		$0

Exhibit D

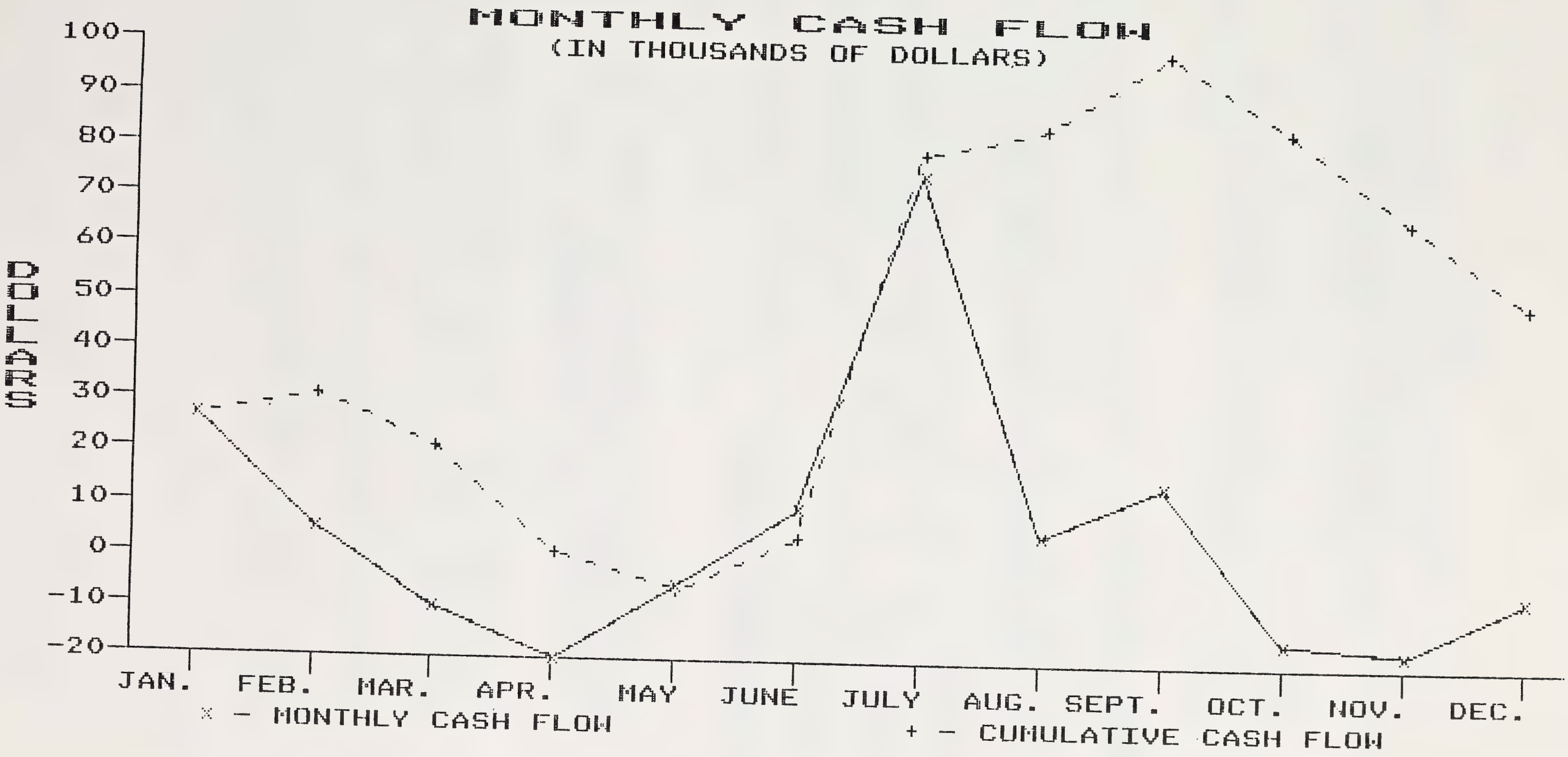
MONTHLY CASH FLOW
(IN THOUSANDS OF DOLLARS)
DOLLARS
100
90
80
70
60
50
40
30
20
10
0
-10
-20
JAN.
FEB.
MAR.
APR.
MAY
JUNE
JULY
AUG.
SEPT.
OCT.
NOV.
DEC.
x - MONTHLY CASH FLOW
+ - CUMULATIVE CASH FLOW

EXHIBIT E

PROPOSAL FOR BANK SERVICES

The following is a description of the type and amount of services the ______ of ___________ is interested in obtaining beginning on____________. It is the _____ desire to have each banking institution submit their bids for the requested services.

GENERAL PROVISIONS

1. The deadline for submission of bids is at 10:00 a.m. on _________ at which time all bids will be opened in the Treasurer's office located at _________.
2. A bid will be rewarded within 30 days of the opening.
3. The ___ reserves the right to reject any part of a bid or all bids in their entirety.
4. The successful bidder must enter into a contract with the ______ of ________ until ________ based on the bid proposal. The signed contract will be reviewed each year on _______ with service beginning on ________ hereafter. The contract can be terminated by either party on any anniversary date by providing written notification at least 90 days prior to _______.

BANKING SERVICES REQUIRED

A. Chequing Account

- Estimated annual deposits $3,500,000 - $4,000,000
- Number of cheques per month (average) 295
- Number of deposits per month (average) 80
- Number of items deposited per month (average) 2400

- Bank must supply deposit instruments and cheques.
- A reconciliation printout is requested showing each cheque number in numerical order and the amount paid within 5 working days following the last day of every month. This should be delivered to the Finance office.

B. Payroll Account: Zero Balance Account

- Estimated total payroll $1,225,000
- Funds to be transferred upon need only.
- Balance to remain zero; funds transferred as per Finance Director's order.

- Paydays are the 15th and 30th of each month. If either day falls on a weekend, payday will be the Friday prior.
- Request a reconciliation printout showing each cheque number in numerical order and the amount paid within 5 working days following each payday. This should be delivered to the Finance office.

C. Other Accounts

- Consolidated bank account with interest calculated on a daily basis.

D. Lock Box Operation

- Property Tax Payments: Pick up daily (afternoon) from a post office box supplied by the City from October 1 to January 31. Estimated number of cheques is 3,000.

- Utility Bills: Pick up daily (morning) from a post office box supplied by _________. Estimated number of cheques is 4,100 per month.

- In each of the cases mentioned above, the bank will prepare deposit slips and match up the payment cards. All irregular payments must be delivered to the Finance office each day by 3:00 p.m.

E. Over the Counter Service

- The bank will collect all utility bills and process these items in the same manner as described above. Estimated number of cheques per month is 200.

F. Night Depository Service

- The bank will furnish the necessary night deposit bags and keys for specific night activities and functions provided by the ______. The ______ of _______ shall provide at least 5 working days notice prior to such events. Estimated number of events is 10.

INVESTMENT SERVICES

H. Investments

- The bank will supply Government of Canada securities including but not limited to Treasury Bills, Notes and Bonds, without a service fee.

  Estimated number of purchases annually is ____.

- The bank will not charge a service fee for other investment instruments such as Certificates of Deposit.

- The _____ reserves the right to negotiate interest rates and yields for any type of investment alternative with any other bank or financial institution at any time.

- The bank will notify the Finance Director each morning by 10:00 a.m. of the current cash balances in each account along with the investments outstanding and maturing on that day.

- The bank will provide a special handling service for all Federal, Provincial and other governmental cheques received by the City. This consists of wire transfers and the immediate credit of these cheques for investment purposes. The estimated number of cheques annually is 30.

- The bank will provide advice on various investments and investment strategies.

OTHER SERVICES

- The ________ requests the bank to specify any other services it feels the ______ may desire.

THE BID SHEET IS ATTACHED ON THE FOLLOWING PAGE

PROPOSAL FOR BANK SERVICES

BANK __________ BID SHEET DATE ______

Enter the appropriate bids in either the column labelled compensating balance or service fee. You may enter a bid for each service with a compensating balance amount and/or a service fee. The amounts entered should be for each MONTH.

	COMPENSATING BALANCE	SERVICE FEE
A. Chequing Account		
B. Payroll Account: Z.B.A.		
C. Other Accounts		
D. Lock Box Operation		
- Property Tax Payments		
- Utility Bills		
E. Over The Counter Service		
F. Night Depository Service		
G. Investments		
- Amount		
- Notification of Daily Cash Balance		
- Special Handling of Cheques		
- Investment Advice		

LIST ALL OTHER SERVICES ON
A SEPARATE PAGE

Name of Authorized Preparer ________________

DEFINITIONS

ACCOMMODATION: Favourable consideration given to a borrower to be.

AFTERMARKET: The market where trading begins in securities after the allotments to buyers or subscribers are known.

ARBITRAGE: Buying securities or foreign exchange in one market and selling them simultaneously in another market to take advantage of price differences or interest rate disparities between the two markets. With respect to securities, the same may be accomplished in comparable issues within one market.

BALANCE OF PAYMENTS: All payments and all receipts, and the difference between them, incurred by a country. It covers all international transactions on current account (merchandise trade, services, transfers) and on capital account (short and long term capital flows). The difference between the total receipts and payments is made up by increases or decreases in foreign exchange reserves of the country.

BANK: In Canada, this refers only to a financial institution governed by the federal Bank Act, which constitutes its charter. Hence, the banks are commonly referred to as "chartered banks").

BANK RATE: The minimum rate at which the Bank of Canada makes short term advances to the chartered banks or to savings banks established under the Quebec Savings Bank Act.

BANKERS' ACCEPTANCE: It is a bill of exchange, or negotiable instrument, drawn by a borrower for payment on a specified date and signed or accepted by a bank upon fulfillment of certain conditions referred to in Section 18(1)(f) and (g) of the Bank of Canada Act.

BASIS POINT: A basis point is 1/100th of 1%. The digits to the right of the decimal point in, say, 10.25 percent, i.e., 25 basis points. Each basic point (0.1%) of yield has a value of $1,000 per $10,000,000 invested per annum.

BEARER FORM: In a form payable to whoever has physical possession of a security – the security having no registered owner.

"BUY-BACKS": Also referred to as Repurchase Agreements. Agreements whereby the "country banks" make short term loans to investment dealers, secured by the purchase of money market securities and their simultaneous resale for future delivery at a specified date, or on call.

CANADIAN DEPOSITORY FOR SECURITIES LIMITED: Established by organizations representing banks, life insurance companies, trust companies, mutual funds, and the securities industry, it serves as a convenient clearing agent to bring about exchanges of cash and securities among the dealers and

institutions that are its members. It is able to reduce the flow of cash and securities by netting the obligations of all parties and calling for transfers to meet only the net obligations.

CASH RESERVES OR PRIMARY RESERVES: Reserves held by banks in the form of deposits with, and notes of, the Bank of Canada.

COMMERCIAL PAPER: An unsecured short term promissory note that is offered to investors either through dealers or directly by the issuer.

"COUNTRY BANK": The non-bank financial institutions and ordinary corporations which provide investment dealers with short term funds under "buy-back" agreements and other arrangements.

COVERED DIFFERENTIAL: The spread between comparable Canadian and U.S. short-term rates after allowance has been made for the forward premium or discount on the U.S. dollar in Canada.

CURRENT YIELD: The dollar amount of interest per year divided by the current market price of an obligation.

DAY-TO-DAY LOANS: Loans made by the chartered banks to money market 'jobbers' within the limits of their PRA facility with the Bank of Canada.

DISINTERMEDIATION: In Canada, this term refers to the flow of savings or funds through the financial institutions other than the chartered banks.

DEBT MANAGEMENT POLICY: The management of that part of the Government of Canada debt which takes the form of direct and guaranteed securities outstanding. It is concerned with the detailed characteristics of the securities which constitute the government debt and with the terms and conditions under which they are issued and redeemed. Debt management policy has its influence on credit conditions by affecting the characteristics and the amounts of the various types of government securities that are outstanding, thereby affecting the terms on which investors will hold them.

EXPOSURE MANAGEMENT: The management of accounting and economic exposures abroad of a company. Accounting exposure reflects generally a company's net position after the assets and liabilities of its foreign units are converted into the Canadian dollars at appropriate exchange rates. Economic exposure refers to a company's true, or real, exposure abroad, and may be in terms of foreign exchange controls, nationalization, etc. in addition to accounting exposure. Both exposures affect a company's decisions with respect to the utilization of its surplus cash and the choice of methods of meeting short term credit needs of its foreign units.

FIRMING OF THE MARKET: A period when security prices tend to stabilize around a certain level after a downward movement.

FISCAL POLICY: The management of the total amount of government revenues, the total amount of government expenditures, and the difference between them, as a device for regulating the pace of business activity.

FORWARD PREMIUM OR DISCOUNT: On the U.S. dollar in Canada. The annual interest rate equivalent of the spread between the spot and forward exchange rates for U.S. dollars in Canada.

FORWARD SPREAD: The premium or discount relative to spot rates on the forward portion of foreign exchange swap transactions.

"FREE" LIQUID ASSETS: The chartered banks' Canadian liquid assets less required cash and secondary reserves as a ratio of their total Canadian dollar major assets.

INTERBANK DEPOSIT FACILITY: Established in late 1973, this facility enables banks to adjust the uneven distribution of cash among them that results from large fluctuations in interbank clearings. It allows the correction of reserve positions among the banks without the need to call their day-to-day loans or special call loans to dealers, which, in turn, relieves the dealers of the burden of shuffling collateral.

INTEREST ARBITRAGE: The making use of exchange swaps to convert liquid funds into the currency of another country for investments in short term securities in order to obtain a better yield than can be obtained on a similar class of investment in one's own country.

"JOBBERS": The investment dealers selected by the Bank of Canada on the basis of certain criteria, who perform a jobbing function in respect of short term Government of Canada securities and who have borrowing privileges from the Bank under PRA's.

LIABILITY MANAGEMENT: The management or control of the level of additional deposits that can be acquired in the money market by adjusting the offering rates on them to make more loans and investments, rather than relying solely on traditional deposits. A financial institution practicing liability management has the option of increasing or decreasing its offering rates on money market funds to meet constant changes in loan demand. The use of liability management techniques enables financial institutions to function at generally lower levels of liquidity than would be possible otherwise. These techniques are considered the single most important approach to asset-liability management.

LIQUID ASSET RATIO: The ratio of liquid assets - Bank of Canada notes and deposits, day-to-day loans, Treasury bills, Government of Canada direct and guaranteed bonds, call and short loans to stockbrokers and investment dealers - of the chartered banks to their total Canadian dollar major assets.

LIQUIDITY: The ease and speed with which an asset can be turned into cash with a minimum risk of loss.

MONETARY POLICY: The use of certain techniques by the central bank to exert influence on the level of demand for goods and services by altering credit conditions, i.e., the whole range of terms and conditions affecting borrowing and lending and the purchase and sale of financial assets.

"MONEY SUPPLY": It is defined as M1, M1B, M2 and M3. M1 includes currency outside banks (Bank of Canada notes and coin in circulation) and chartered bank Canadian dollar deposits (less private sector float) excluding Government of Canada deposits. M1B includes currency outside banks, demand deposits, personal and non-personal chequable Canadian dollar deposits at chartered banks. M2 includes, in addition to M1B, Canadian dollar personal non-chequable and fixed-term deposits at chartered banks. M3 includes, in addition to M2, Canadian dollar non-personal fixed-term deposits and bearer term notes plus all foreign currency deposits of Canadian residents booked at chartered banks in Canada.

NOMINAL YIELD: The yield stated on the face of an obligation. A promissory note promising to pay $100 at the end of a year with interest at 10 percent has a nominal yield of 10 percent.

PRIMARY DISTRIBUTOR: The investment dealers and banks who have the right to trade directly with the Bank of Canada to bid for Treasury bills at tender and to subscribe for the new issue of other securities of the Government of Canada. A primary distributor acts as a commissioned agent on behalf of the government for underwriting purposes.

PRIME RATE: Also referred to as MLR (Minimum Lending Rate). The interest rate charged by banks to their most credit-worthy customers.

PURCHASE AND RESALE AGREEMENTS OR "PRA's": Arrangements whereby the Bank of Canada provides short term accommodations as a lender of last resort to investment dealers who are money market 'jobbers'.

RESERVE REQUIREMENT: Each chartered bank is required by the Bank Act to maintain cash reserves against its Canadian dollar deposits at a given ratio. Since February, 1968, the ratio has been 12 percent for demand deposits, and 4 percent for notice deposits, maintained on a half-monthly basis.

SECONDARY MARKET: The market for securities after they have been sold to subscribers or buyers on original issuance. It can also be referred to as resale market.

SECONDARY RESERVES: The banks' holdings of Treasury bills and day-to-day loans to investment dealers plus any cash that are in excess of the minimum legal requirement.

SPECIAL DRAWING RIGHTS OR "SDR'S": Also known as "paper gold", it is the unit of account of the International Monetary Fund (I.M.F.). This money is used only in transactions among governments and between the

I.M.F. and governments. The value of SDR's is determined by the weighted value of a "basket" of several currencies. The SDR is currently valued at about $1.50 Canadian.

SPREAD: The difference between the bid and asked prices.

SWAPPED DEPOSITS: These are funds converted into a foreign currency, usually U.S. dollars, that have been placed on a term deposit with a bank and that bank has undertaken through a forward contract to convert back into Canadian dollars.

S.W.I.F.T.: Society for Worldwide Interbank Financial Telecommunications. An electronic funds transfer system which is used by banks in several countries to make international payments much faster than the traditional mail and telex methods. Its primary objectives are to be available 24 hours per day, to handle every transaction reliably, to allow automated handling, to give the parties the ability to recall from the system a log of their activities, and to allow members complete control over every transaction for purposes of audit or verification.

TREASURY BILL: A Treasury bill is an obligation of the Canadian government to pay the bearer a fixed sum after a specified number of days from the date of issue. These debt instruments are sold by the Bank of Canada at a discount through competitive bidding, and the return to the investor is the difference between the purchase price and the face, or par value.

UNDERWRITING SYNDICATE: A group of investment dealers who pool financial resources and marketing facilities to underwrite and distribute an issue of securities.

VALUE DATE: The date on which delivery and payment is made.

YIELD CURVE: A graphic representation of the market yields to maturity available at a given time on various maturities of a specific category of securities.

YIELD TO MATURITY: Suppose that you buy a 10 - year bond at $950. You would receive not only $100 a year (assuming the interest rate is 10 percent) but also a capital appreciation of $50 over the 10 - year period, or an average of $105 per year. Thus, the average return per year would be $105 and your average yield would be 115/$950, or 13.68 percent.

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